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MAHER SHOES LIMITED

ANNUAL REPORT

January 7th 1978

PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

We are pleased to report that the Company's consolidated sales and profits in 1977 were the highest on record, as all retail divisions have shown increased sales and profits from last year. For the 53 week period ending January 7, 1978, sales rose to $34,165,000 an increase of 8.3% over the 52 week period last year. Net income was $1,043,000 against $757,000 last year. The 3% inventory tax reduction contributed $105,000 to income.

While retail market conditions throughout Canada during the year have tested the management strength of the Company, after a soft Spring, we enjoyed a record Fall and Winter selling season with a fourth quarter sales increase of 23.3%, and much of this impetus has continued into the current year. Along with this, continued improvement and efficiencies from a consolidation of the operating and merchandising functions has been achieved. This has been accomplished at a time when a number of small to medium sized competitors have ceased operations.

During the year, 15 new stores were added and 15 stores were closed, while 20 small adjacent divisional shopping centre stores were combined, ending the year with 176 total units in operations.

Although the footwear industry will be further challenged with short-term supply vibrations, created from the government imposed import quotas, we remain optimistic and confident that our Company is soundly positioned to maximize its continued planned growth, due in part to long standing Canadian supplier relationships.

Our financial position has improved dramatically over the last few years, and the reduction of our financial expenses as a proportion of total expense has been one of the factors in our improving results. We are confident the current year will accomplish a new record in our earnings, given reasonably stable economic conditions.

March 15, 1978

Thomas P. Wilson, *President*

MAHER SHOES LIMITED

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS	January 7, 1978	January 1, 1977
Cash and bank deposit receipts	$ 1,572,000	$ 1,275,000
Accounts receivable	386,000	415,000
Inventories	7,725,000	7,468,000
Prepaid expenses	118,000	146,000
	9,801,000	9,304,000
MORTGAGES RECEIVABLE		38,000
INVESTMENT IN BARCLEY-LANES SHOES	228,000	227,000
FIXED ASSETS		
Building	116,000	116,000
Fixtures, equipment and leasehold improvements	7,047,000	6,622,000
	7,163,000	6,738,000
Less accumulated depreciation	3,314,000	2,916,000
	3,849,000	3,822,000
Land	38,000	38,000
	3,887,000	3,860,000
	$13,916,000	$13,429,000

Approved by the Board

L. R. CHESTER, *Director*

T. P. WILSON, *Director*

LIABILITIES

CURRENT LIABILITIES	January 7, 1978	January 1, 1977
Accounts payable and accrued liabilities	$ 2,752,000	$ 2,294,000
Income and other taxes payable	436,000	368,000
Payable to parent and affiliated companies	1,548,000	2,218,000
Dividends payable	—	23,000
	4,736,000	4,903,000
LONG TERM DEBT (note 2)		
6¾ % Sinking fund debenture, series A, maturing April 1, 1987	1,000,000	1,100,000
DEFERRED INCOME TAXES	353,000	338,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized		
156,675 60¢ Cumulative, non-redeemable preference shares without par value		
400,000 Common shares without par value		
Issued		
156,666 Preference shares	1,413,000	1,413,000
209,900 Common shares	1,231,000	1,231,000
	2,644,000	2,644,000
RETAINED EARNINGS	5,183,000	4,444,000
	7,827,000	7,088,000
	$13,916,000	$13,429,000

Long term leases (note 3)

MAHER SHOES LIMITED

CONSOLIDATED STATEMENT OF INCOME

	53 weeks ended January 7, 1978	52 weeks ended January 1, 1977
Sales	$34,165,000	$31,553,000
Costs and expenses before the undernoted	31,315,000	28,959,000
Depreciation	679,000	644,000
Debenture interest	74,000	79,000
Other interest	245,000	346,000
	32,313,000	30,028,000
	1,852,000	1,525,000
Equity in earnings (loss) of Barcley-Lanes Shoes	1,000	(30,000)
Income before income taxes	1,853,000	1,495,000
Income taxes (note 4)		
Current	795,000	718,000
Deferred	15,000	20,000
	810,000	738,000
NET INCOME FOR THE PERIOD	$ 1,043,000	$ 757,000
EARNINGS PER COMMON SHARE (after providing for annual dividends on preference shares)	$ 4.52	$ 3.16

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	53 weeks ended January 7, 1978	52 weeks ended January 1, 1977
BALANCE AT BEGINNING OF PERIOD	$ 4,444,000	$ 3,781,000
Net income for the period	1,043,000	757,000
	5,487,000	4,538,000
Dividends		
Preference shares	94,000	94,000
Common shares	210,000	—
	304,000	94,000
BALANCE AT END OF PERIOD	$ 5,183,000	$ 4,444,000

MAHER SHOES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	53 weeks ended January 7, 1978	52 weeks ended January 1, 1977
WORKING CAPITAL DERIVED FROM		
OPERATIONS		
Net income for the period	$ 1,043,000	$ 757,000
Items not involving working capital		
Depreciation	679,000	644,000
Deferred income taxes	15,000	20,000
Loss on disposal of fixed assets	23,000	9,000
Equity in (earnings) loss of Barcley-Lanes Shoes	(1,000)	30,000
	1,759,000	1,460,000
Decrease in mortgages receivable	38,000	1,000
Proceeds from sale of fixed assets	40,000	16,000
	1,837,000	1,477,000
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	769,000	727,000
Dividends	304,000	94,000
Reduction of non-current portion of long term debt	100,000	103,000
	1,173,000	924,000
INCREASE IN WORKING CAPITAL	664,000	553,000
WORKING CAPITAL AT BEGINNING OF PERIOD	4,401,000	3,848,000
WORKING CAPITAL AT END OF PERIOD	$ 5,065,000	$ 4,401,000

MAHER SHOES LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
January 7, 1978

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary company, Copp the Shoe Man Limited.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value.

(c) Investment in Barcley-Lanes Shoes

Barcley-Lanes Shoes is a partnership formed in the 1976 fiscal year, 50% of which is owned by the Company and the other 50% is owned by Savage Shoes (1970) Limited. The Company's share of the earnings (losses) of the partnership, which operates retail shoe stores, has been included in these financial statements on an equity basis.

(d) Fixed assets

Fixed assets are stated in the accounts at cost. Depreciation charged to operations is based on the following:

Building	2½ % straight line
Fixtures and equipment	10% straight line
Leasehold improvements	10% straight line

It is the Company's policy to remove from the accounts the cost and accumulated depreciation of fully depreciated fixed assets.

(e) Income taxes

The Company charges earnings with income taxes currently payable and also with income taxes deferred by claiming certain costs for income tax purposes in excess of related costs charged to income. The accumulated total of such income tax deferments is reflected in the consolidated balance sheet as "Deferred income taxes".

2. LONG TERM DEBT

The 6¾ % sinking fund debenture is secured by a first floating charge on the assets of the Company. The more significant of the covenants of the Trust Deed restrict the Company from reducing consolidated working capital below $1,000,000 and from paying dividends on common shares if such payments would reduce consolidated working capital below $1,250,000.

At January 7, 1978, the Company had a sinking fund credit of $123,000 which is sufficient to meet the $85,000 payment due in the year ending January 6, 1979. The payments required in 1978 and subsequent years average approximately $110,000 per annum to April, 1987, the date of maturity.

3. LONG TERM LEASES

At January 7, 1978, the Company has entered into long term leases for periods expiring between 1978 and 1998. Based upon leases in effect as at its fiscal period end the aggregate minimum amount that will be incurred by the Company and its subsidiary as annual rent during the next five years is approximately $2,061,000 exclusive of percentage rents.

4. INCOME TAXES

The effective tax rate on income before income taxes is 43% (1977, 49%). This includes an inventory allowance tax deduction for income tax purposes of approximately $105,000 in 1978.

5. PENSION PLAN

Current service pension costs are charged to operations each year. As a result of an actuarially computed surplus in the pension plan at January 7, 1978, the liability for unfunded past service costs was reduced to $60,000, which amount was paid by the Company to the pension plan subsequent to the year end.

6. OTHER STATUTORY INFORMATION

Remuneration of directors and senior officers amounted to $245,000 (1977 – $249,000).

7. ANTI-INFLATION LEGISLATION

The Company and its subsidiary are subject to the Anti-Inflation Act which provides for the restraint of profit margins, prices and compensation. In management's opinion the Company and its subsidiary have complied with the provisions of this Act for the year ended January 7, 1978.

AUDITORS' REPORT

To the Shareholders of Maher Shoes Limited

We have examined the consolidated balance sheet of Maher Shoes Limited as at January 7, 1978 and the consolidated statements of income, retained earnings and changes in financial position for the 53 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 7, 1978 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada

February 24, 1978

Thorne Riddell & Co.

Chartered Accountants